

Report of the auditor-general to the Western Cape Provincial Parliament and the council on the Knysna Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Knysna Municipality set out on pages 6 to 109, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Knysna Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003, (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa 2016, (Act No. 3 of 2016) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of Corresponding Figures

7. As disclosed in note 2 and 45 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of a change in accounting policy and adjustment of errors in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Material Impairments

8. As disclosed in note 5 and 6 to the financial statements, the municipality has provided for impairment of receivables from exchange transactions amounting to R86 456 582 (2016: R58 651 360) and receivables from non-exchange transactions amounting to R114 497 219 (2016: R102 834 341) respectively.

Contingent Assets

9. As disclosed in note 42 the municipality has disclosed contingent assets to the amount of R64 080 000. This relates to a dispute over properties with Eden District Municipality which both municipalities claim as their properties. The properties are not yet recognised in the municipality's financial statements.

Significant Uncertainties

10. With reference to note 42 to the financial statements, the municipality is the defendant in a number of lawsuits with third parties amounting to R53 478 665. The outcomes of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Significant subsequent event that occurred between the date of the financial statements and the date of the auditor's report

11. As disclosed in note 55 to the financial statements, there were notices received, in terms of the Institution of Legal Proceedings against certain Organs of State Act, 2002 (Act No. 40 of 2002), addressed to Knysna Municipality as well as other municipalities in the district, due to possible unlawful and negligent acting with regard to fires that occurred in the region. The financial effect for the municipality has not been determined as the best estimate of the potential financial effect on each of the relevant municipalities has not been established, as the jurisdiction of the affected areas must first be determined.

Other matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited Disclosure Notes

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Unaudited Supplementary Schedules

14. The supplementary information set out on pages 110 to 116 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting

officer determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

16. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

17. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic focus areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
20. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
21. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic focus area presented in the annual performance report of the municipality for the year ended 30 June 2017:

Objective	Pages in the annual performance report
Strategic Focus Area 1 – Basic Service Delivery	74 – 85

22. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether

the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

23. The material findings in respect of the reliability of the selected strategic focus area are as follows:

Strategic Focus Area 1 – Basic Service Delivery

TL1: The number of single residential properties with access to basic level of electricity

24. The reported achievement for the target of *19 430 single residential properties with access to free basic level electricity* was misstated as the evidence provided indicated 17 553 and not 20 566 as reported.

Proof of income not adequate

25. The reported achievements of the indicators listed below were misstated, as the evidence provided did not agree with the reported achievements as follows:

Performance indicator	Reported achievement	Projected Audited value
TL6: The number of formalised single residential properties with access to free basic services: Water	1 539	342
TL7: The number of formalised single residential properties with access to free basic services: Sanitation/Sewerage	1 539	342
TL8: The number of formalised single residential properties with access to free basic services: Solid Waste/Refuse	1 539	342

Other matters

26. I draw attention to the matters below:

Achievement of planned targets

27. Refer to the annual performance report on pages 74 to 85 for information on the achievement of planned targets for the year and explanations provided for the under or overachievement of a number of targets. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraphs 23-28 of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic service delivery. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information. Those that were not corrected are reported above.

Unaudited supplementary information

29. The supplementary information set out on pages 7 to 73 and 86 to 93 does not form part of the report on predetermined objectives. I have not audited these schedules and, accordingly, I do not express an opinion thereon.
30. The reported performance information for indicator TL 35: Disaster management Risk assessment on page 77 and TL36: Disaster management plan did not form part of the audited strategic focus area and I do not express an opinion thereon.

Report on audit of compliance with legislation

Introduction and scope

31. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
32. I did not raise material findings on compliance with the specific matters in key legislation as set out in the general notice issued in terms of the PAA.

Other information

33. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected strategic focus areas presented in the annual performance report that have been specifically reported on in the auditor's report.
34. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
35. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
36. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

37. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report.

Financial and Performance Management

38. The municipality did not have a proper record management system to maintain information that supported the reported performance in the annual performance report.

Auditor General

Cape Town

22 January 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.